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Mark Friedrichs, Esq.
PI-40
Office of Policy and International Affairs
U.S. Department of Energy
Room 1E190
1000 Independence Ave., SW
Washington, DC 20585

RE: COMMENTS OF XCEL ENERGY ON 10 CFR PART 300 REVISED GENERAL GUIDELINES FOR VOLUNTARY GREENHOUSE GAS REPORTING; INTERIM FINAL RULE, 70 *FED. REG.* 15169-15192 (MARCH 24, 2005).

Dear Mr. Friedrichs:

Xcel Energy respectfully submits the following comments on the Department of Energy (DOE) Revised General Guidelines (Guidelines) for Section 1605(b) Voluntary Reporting under the Energy Policy Act. Although the Guidelines are a substantial improvement over previous iterations, we remain concerned that the Guidelines fall short of their goal. They specifically discourage the registration and reporting of greenhouse gas reductions associated with utility power purchase agreements and demand side management (DSM) programs. We encourage DOE to make several common sense revisions to the Guidelines that account for the greenhouse gas benefits of utility power purchase agreements and DSM programs.

Background – Xcel Energy. Xcel Energy is the fourth-largest combination electricity and natural gas energy company in the United States. We offer a comprehensive portfolio of energy-related products and services to 3.3 million electricity customers and 1.8 million natural gas customers. We have regulated operations in 10 Western and Midwestern states and serve the fast-growing Denver and Minneapolis/St. Paul metropolitan areas. We operate regulated power plants that generate about 15,300 megawatts of electric power. Xcel Energy has been a major voluntary reporter of greenhouse gas emission reductions to the Energy Information Administration (EIA) 1605(b) database under the initial October 19, 1994

guidelines. We continue to support President Bush's program for addressing the climate change issue, including the goal to reduce the CO₂ emissions intensity of the United States by 18 percent by 2012, the Climate VISION program, and the efforts to improve the Energy Policy Act 1605(b) greenhouse gas database and reporting guidelines.

Under rules established by state utilities commissions, Xcel Energy is often required to accept bids from independent power producers to build the new power plants necessary to meet our growing customer demand. Much of our renewable energy program relies on this purchased power system: through power purchase agreements, Xcel Energy is the second largest supplier of wind energy in the country. We currently supply over 800 MW of renewable energy to our customers and are expected to provide over 2000 MW in the next few years. In addition, Xcel Energy is one of the largest suppliers of DSM in the country, and we have a significant and effective program of reuse of our coal ash.

Greenhouse Gas Strategy. Xcel Energy relies on these programs to support its carbon management strategy. We have one of the most aggressive voluntary greenhouse gas strategies in the country, with goals of (1) reducing greenhouse gas intensity (measured in lb/MWhr) by 7% from 2003 levels by 2012; and (2) a cumulative 12 million ton CO₂ reduction by 2009. To achieve these goals, our strategy takes into account the emissions associated with all of our power purchase agreements (including our renewable energy contracts) and our DSM and other programs. We believe that our strategy is based on an approach that our customers would find most credible. Our customers know that, when we report progress in meeting our goals, we are accounting for the emissions associated with all of the electricity coming through the wires to their homes or businesses, no matter who owns the facility where it was generated. We believe that the Guidelines should follow a similar approach.

Summary of Comments. However, as currently written, the Guidelines do not provide a simple, cost-effective methodology to allow Xcel Energy to accurately register its power purchase, DSM and coal ash reuse strategies to reduce the CO₂ emissions and intensity of the electricity it supplies to its customers. Subject to reasonable constraints to ensure the credibility of the program, we urge DOE to revise the Guidelines to allow reductions in entity-wide CO₂ emissions and intensity to be registered by the utility that provides electricity to the end-user/customer.

Our comments below reflect these concerns. Specifically, we urge DOE to revise the Guidelines to address the following issues:

- The Guidelines should not discourage or penalize utilities relying on purchase power to meet their greenhouse gas goals, but should presume that the registration rights belong to the electric utility that delivers the electricity to the customer.

- Demand-side management (DSM) and coal ash reuse activities can be a significant, cost-effective carbon intensity reduction strategy and should be encouraged—not excluded—from 1605(b) registration status.
- Registration rights should be able to be transferred between reporting and non-reporting parties before as well as after DOE approval.

COMMENTS

I. The Guidelines should not discourage or penalize utilities relying on purchase power to meet their greenhouse gas goals, but should presume that the registration rights belong to the electric utility that delivers the electricity to the customer.

The reduction of CO₂ emissions or intensity associated with power purchases is a legitimate and effective reduction strategy. DOE should design the Guidelines to encourage the electric utility industry to participate in the 1605(b) Program. Furthermore, the Guidelines should support rather than penalize utilities for complying with state regulatory requirements. We strongly believe that the Guidelines should promote all legitimate strategies that reduce the overall CO₂ emissions or intensity associated with the power delivered to customers.

However, the Guidelines do not accomplish this goal. DOE's decisions regarding the 1605(b) registration of reductions from purchased power penalizes Xcel Energy by imposing onerous reporting requirements. Under the Guidelines as currently drafted, Xcel Energy would be obligated to function as an "Aggregator" and supply all the information necessary for DOE to certify its reductions from its Large and Small Emitter third party purchased power suppliers. This requirement would discourage and possibly prevent companies like Xcel Energy from participating in the program.

In order to aggregate reductions from its Large Third Party Emitters (i.e. an emitter with annual average emissions of 10,000 metric tons of CO₂e or greater), Xcel Energy would have to supply DOE with an Entity Statement, Certification Statement and an Annual Emission Inventory across all operational boundaries for each Third Party—not just the operational portion of the Third Party directly associated with Xcel Energy's CO₂ reduction power purchase strategies. Annual reductions can be aggregated and registered to Xcel Energy from Large Emitter suppliers only if these Third Parties do not participate in 1605(b) themselves and there is a net reduction across the entire Third Party Entity each particular year. The effect of DOE's decision is that Xcel Energy must provide DOE with its own complete Entity Statement and Annual Emissions Inventory Report as well as the Entity Statement and Annual Emissions Inventory Reports for all of its Large Emitter power purchase suppliers in order to

properly register the impact of its power purchase strategies to reduce the CO₂ intensity of the electricity it supplies to its customers. This is an enormous burden and is likely to prevent companies like Xcel Energy from registering emissions from power purchase agreements.

To aggregate its reductions from Small Third Party Emitters (i.e. an emitter with annual average emissions of less than 10,000 metric tons of CO₂e), Xcel Energy would have to supply DOE with an Entity Statement and Certification Statement for each Small Third Party Emitter. While the contractual burden is lessened for Small Emitters in that Xcel Energy would not have to prove Third Party net entity-wide reductions, Xcel Energy would still have to provide DOE with individual certifications that the reductions registered were “not caused by actions likely to cause increases in emissions elsewhere within each [Small Third Party Emitter]”. As with Large Emitters, the burden on Xcel Energy necessary to maintain its 1605(b) registration rights associated with its purchased power CO₂ reduction strategies from Small Third Party Emitters makes registration extremely impractical—if not impossible.

The Guidelines should encourage the electric utility industry to participate in 1605(b) and to pursue power purchase strategies that reduce the CO₂ emissions or intensity of the power delivered to customers. Requiring purchasing electric utilities to function as Aggregators is unreasonable and clearly will not provide the electric utility industry with purchased power incentives consistent with the purpose of 1605(b). DOE should instead allow the registration of reductions associated with power purchased by any entity at any point in the electricity generation, transmission and distribution system as long as 1) an overall net reduction in the carbon emissions or intensity of energy delivered to the customer (end-user) can be calculated and 2) potential double counting issues are made explicit and clearly identified in EIA’s database of entity reports. Registration rights associated with purchased power should be presumed to belong to the electric utility that delivers the electricity to the customer (end-user) unless the generator, customer or other entity affirmatively submits information to the contrary to DOE.

The Guidelines, however, do more than merely discourage the use of a purchase power greenhouse gas reduction strategy through the burden of Aggregation. They also create a purchased power reduction penalty that unfairly discriminates between the 1605(b) registration effect of power owned and power purchased.

Under the Guidelines, Xcel Energy would be required to use the “Offset Reduction Methodology” to determine the impact of purchase power on its registered greenhouse gas emissions. This Offset Methodology would allow us to register only the incremental improvement in emissions intensity as a result of purchased power since 2002. However, if Xcel Energy owned the same power, the associated reductions would be registered as “Avoided Emissions,” the amount of which would be estimated using

the applicable U.S. CO₂ intensity average benchmark (approximately 0.59 lb/MW-hr at the point of generation). No comparison with base rate intensity would be required. In effect, by separating Offsets from Avoided Emissions, the Guidelines would require greater reductions from and further penalize utilities like Xcel Energy that rely on purchased power to meet their greenhouse gas reduction commitments. This penalty would be imposed despite the fact that the only practical difference between registered reductions from Offsets and Avoided Emissions is ownership. Xcel Energy believes there should be no inherent bias between the estimation methods used for purchased and owned power.

II. Demand-side management (DSM) activities can be a significant, cost-effective carbon intensity reduction strategy and should be encouraged—not excluded—from 1605(b) registration status.

Xcel Energy consistently ranks in the top five in DOE's annual report on DSM achievements based on energy saved. Xcel Energy's DSM strategies can have the same effect on reducing carbon emissions and intensity as adding zero-emitting resources to its generation portfolio. In 2004, Xcel Energy spent approximately \$65 million on its DSM efforts. Xcel Energy controls over 1,505 MW of demand through a mix of interruptible and load control customer programs and plans to increase these efforts to reduce peak demand by an additional 127 MW in 2005.

Under the proposed Guidelines, it is unclear if Xcel Energy can register even a portion of its DSM efforts and if it can, whether or not it would be forced to do so as an Aggregator on behalf of all of its Large and Small Emitter DSM participating customers. Even if Aggregation is an option, it will be extremely burdensome for Xcel Energy to achieve adequate 1605(b) registration recognition for the actual impact of its DSM efforts, if not practically impossible for Xcel Energy to supply all of the required Third-Party documentation for each DSM participant. In 2004, Xcel Energy's customers numbered over 676,000 in Minnesota alone. We cannot act as an Aggregator for so many potential DSM customers.

Requiring electric utilities to function as Aggregators is unreasonable and clearly will not provide the industry with DSM incentives consistent with the purpose of 1605(b). Xcel Energy understands stakeholders are concerned about the potential abuse of offsets such as DSM as the net entity-wide reduction rule is not applied. However, this concern does not justify the wholesale exclusion of a legitimate reduction strategy for electric utility participants. As with power purchase agreements, DOE should instead allow the registration of reductions associated with credible DSM programs by any entity at any point in the electricity generation, transmission and distribution system as long as 1) an overall net reduction in customer electricity demand can be calculated and attributed to the DSM program, and 2) potential double counting issues are made explicit and clearly identified in EIA's database of entity

reports. Registration rights associated with DSM should be presumed to belong to the electric utility that delivers the electricity to the customer unless the generator, customer or other entity affirmatively submits information to the contrary to DOE.¹

III. Registration rights should be able to be transferred between reporting and non-reporting parties before as well as after DOE registration.

Under the Guidelines, registration rights cannot be “transferred” between parties participating in 1605(b)—only between parties participating in 1605(b) and not participating in 1605(b). The concept of regulatory “registration” is distinguishable from the concept of regulatory “credit”. Registration rights will not provide Xcel Energy with anything of regulatory or financial value under future climate policies. At best, 1605(b) registered reductions will demonstrate Xcel Energy’s support for President Bush’s carbon intensity goal and may function as a non-binding hedge against current and future climate regulatory policy.

DOE’s prohibition on reporting party transfers stems from its concern that it may become an arbiter of “marketable credit”. While Xcel Energy appreciates DOE’s concern regarding the potential market impact of its 1605(b) Guidance, it respectfully disagrees. DOE has already concluded it does not have the legal authority to issue “transferable credits” recognize “environmental attributes” or anything guaranteed to have regulatory or financial value under future climate policies. The right to transfer reductions under the Guidelines is limited to registration rights within the 1605(b) Program—nothing more.

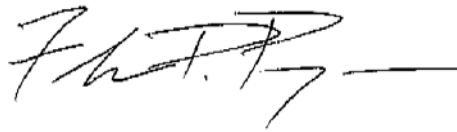
DOE should instead focus on how to most effectively register the impact of 1605(b) voluntary participants toward President Bush’s national carbon intensity reduction goal. As currently written, the Guidelines would require specific 1605(b) registration rights to be inserted into each and every contractual relationship. While the impracticality of this is obvious, it is even more puzzling that DOE, having established such a high threshold for participation, would then prohibit the same parties from transferring registered reductions between themselves. The prohibition on transferability of registered reductions between 1605(b) participating parties does not provide the electric utility industry appropriate incentives, nor is it compatible with current business practices.

¹ The Guidelines would also require a Third Party to certify that it has agreed that the Reporting Entity or Aggregator should be recognized as the Entity responsible for the submitted registered reductions. This requirement is redundant and overly burdensome. For Xcel Energy, this requirement will easily result in the inclusion of thousands of Third Party certifications for each annual report it submits. This enormous paper-work exercise would be unnecessary if DOE adopts the approaches set forth in these comments.

The Guidelines' approach to purchased power, DSM and coal ash reuse is overly burdensome and will make it impractical--if not impossible—for Xcel Energy to achieve adequate 1605(b) recognition for its voluntary CO₂ intensity reduction efforts. In fact, due to the unnecessarily burdensome requirements, it is likely that many valid CO₂ reductions, offsets and avoided emissions (including those of Xcel Energy), will never be registered in support of the President's goal.

Xcel Energy appreciates the opportunity to submit these comments and looks forward to further discussion and work with DOE and EIA.

Very Truly Yours,

A handwritten signature in black ink, appearing to read 'F. P. Prager', followed by a horizontal line.

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